Business and State Relations in Post-Revolutionary Nicaragua:

Elite Realignment and the New Strategy of Collaboration

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> "The Government of Nicaragua has established the creation of a favorable business climate as top priority for the country, so as to foster the development of new and existing investment projects" (PRONICARAGUA, *2013 Investment Overview*, 6).
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> "If we were permanently confronting the government, do you believe that Nicaragua would be able to move forward?" (Carlos Pellas, as quoted in Lucía Navas, "Cosep defiende su diálogo con Daniel Ortega," *La Prensa*, September 12, 2012).

This paper begins with the observation that economic elites develop, not simply in response to economic signals, but also in relation to their engagement with the state. The Nicaraguan case demonstrates how the processes of elite formation and recomposition intersected with major political changes as the country underwent revolution, warfare, democratization, and economic reinsertion. A new Nicaraguan business elite developed in response to a process of post-revolutionary market reform in the 1990s that altered the domestic institutional architecture and produced new trade and investment flows. Although some traditional economic elites were hard pressed to make the requisite transitions in terms of technology and production processes, others found their way into expanding economic activities and emerged as part of the new elite. The 2007 return to the presidency of FSLN leader and former revolutionary Daniel Ortega raises questions

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about the emerging interface between economic and political elites in the context of shifting international alliances and post-neoliberal policy adjustments.

This paper is organized into six sections. The first part reviews major theoretical claims about state and business relations in Latin America. The second examines the relationship between the Nicaraguan business sector and the state during the revolutionary 1980s, and it traces the reconstitution of the elite during the neoliberal transition that followed. The third section focuses on the formal organization of the business sector, and documents the post-revolutionary development of Nicaraguan business chambers and associations. It gives particular attention to the period beginning in 2006 when the prospect of Daniel Ortega's return to the presidency led to "defensive encompassing organization" (B. R. Schneider 2004, 36) and the strengthening of business elite coordination. The fourth section analyzes the new forms of state-business collaboration that developed in the 2007-2012 period, following Ortega's re-election. Section five focuses on the growth, aid and investment patterns that emerged during this six-year period, and it highlights the new linkages with Venezuela and the emergence of growth sectors in tourism and renewable energy. The final section returns to the question of mutual dependence that shapes state and economic elite collaboration in contemporary Nicaragua, analyzing costs and benefits of this alliance strategy and the continuing areas of tension.

1. Business-State Relations: Theoretical Considerations

The relationship between economic and political processes has been a central theoretical puzzle in the social sciences. Classic work on this intersection has examined the way agrarian social and economic structures affect involvement in revolutionary struggle (Paige 1975) and the relationship between capitalist development and the advance of democracy (Rueschemeyer, Stephens and Stephens 1992; Paige 1997). Recent research links changes in the composition of elites to shifts in development strategies (Robinson 2003) and variations in tax regimes (A. Schneider 2012). General connections have been identified between specific economic configurations and propensities in state formation. Whereas a traditional agroexport-based regime commonly operates in alliance with an agrarian oligarchy, and a populist state is often constructed in alliance with domestic industrialists and corporatist labor organizations, the neoliberal state consolidates in alliance with exporters, financial interests, and urban consumers. A new equilibrium emerges under neoliberalism as non-traditional exporters and private financial interests gain organizational momentum, economic leverage, and lobbying capacity. Using these resources, economic elites collaborate to pursue a policy framework and legal environment that will allow them to advance their interests.

Business elites have a wide repertoire of strategies they can deploy—individual and collective, formal and informal, associational and electoral—to pursue their goals. In addition to obvious instruments such as campaign contributions and media ownership, business elites have other levels that increase their influence. The need political leaders have for private sector investment and growth, in order to achieve state consolidation and stability (i.e., the structural dependence of the state on capital), gives the business sector

enduring power, which political elites ignore at their peril. At the same time, the ability of business to exercise this influence depends on the extent to which they attenuate the differences among themselves through negotiation, persuasion, intimidation or exclusion of weaker segments.

Although historically state-dependent and fragmented in many countries, Latin America's business organizations often gained organizational capacity during market transitions (Durand and Silva 1998). Complex multi-sectoral peak associations worked to unify the business voice and amplify its impact on both domestic policy and international agreements. In Mexico and Chile, strong business associations were found to play a strategic role in crafting specific provisions in NAFTA and in the Mercosur trade agreement (B. R. Schneider 2004, 221-230; Teichman 2001). Business representatives, who were more expert in their industries than government officials, actively collaborated in these negotiations to secure their preferences, advancing recommendations on tariff schedules and timetables. In her study of Chilean free trade negotiations, Bull (2008) found that business elites used control over not just capital but also knowledge to influence the shape of the trade text. The professional staff of business associations, some of whom rotated between private sector and government roles, blurred the distinction between public and private, and helped to synchronize business and government positions.[2]

Market reform deals both winning and losing hands to business elites, however, commonly leading to fragmentation and organizational reconfiguration. Hierarchies among business groups with differential access to policy makers lead to policy reforms

[2] In the Chilean case, business leaders were delegated by official negotiators to take charge of specific aspects in the Mercosur negotiation (B. R. Schneider 2004, 228).

that favor some interests over others. Detailed case studies of privatization in Latin America and Europe, for example, challenge conventional arguments about the purely ideological or technocratic base of privatization policy, even in neoliberal showcases like Pinochet's Chile or Thatcher's Britain. Close academic analysis frequently identifies ways in which a handful of conglomerates gained privileged access to policy arenas and shaped particular reforms to their benefit (Schamis 2002; Manzetti 2009). Hellman (1998) notes the problem of "state capture" in post-communist systems, in which insiders aligned with emerging economic interests to stall economic reforms at an equilibrium point that fell short of full transition, a strategy that allowed them to extract rents and noncompetitive benefits, to the detriment of other business sectors and the broader society. Aaron Schneider (2012, 34-40) uses the tools of "fiscal sociology" to demonstrate how the structure of business alliances affects state building processes via tax regimes in Central America. The particular coalitional formation between state elites and economic elites may direct economic policy to different benchmarks.

State and class coalition analysis draws attention to not just which sectors are included but also which are excluded or expelled. Kurtz's (2004) analysis of the impact of neoliberal reform on the solidarity structures of rural workers and peasants in Mexico and Chile suggests ways in which old alliances, once undermined, erode quickly. Neoliberal reforms cut into the small farmer resource base and disrupted peasant organizational capacity, making it easier for the state to dismiss their claims. A similar process emerges with organized labor, which is displaced from a relatively privileged place it occupied during state-sponsored industrialization. As traditional state-society links deteriorate and

new alliances are forged, domestic pressures build in favor of market reforms with particular distributional consequences.

This analysis draws on the distinction between traditional, new and emerging elites—three categories under investigation in the Central American elites project. At the same time, it recognizes the ambiguity of these labels and the challenges associated with empirical application of these concepts. Although the traditional, new and emerging labels are useful at the conceptual level, these categories can be problematic in terms of empirical analysis. In practice, elites transfer across categories and multiple generations are not easily confined to one segment of the typology. Some traditional elites in Nicaragua, for example, reconfigured during the revolutionary period and reemerged in the post-revolutionary neoliberal transition, moving into space that opened with the privatization of state enterprises and new forms of economic integration. Others continued diversifying and transnationalizing, and may be regarded as part of an emerging elite in sectors that have recently begun to grow.

2. Nicaraguan elites, in war and revolution

Historically, the Nicaraguan economic elite was centered in agro-export production of coffee, cotton and cattle (Bulmer-Thomas 1987). It developed in close proximity with the Somoza dynasty (1936-1979), as agro-export production expanded and CACM-supported industrialization was launched. Three main business groups were constructed in the 1960s and 1970s, each organized around emerging banking interests (Strachen 1976; Wheelock Román 1980). The Somoza family and allies anchored one these business groups, with major investments in agriculture, livestock, banking and commerce. Other

leading agricultural producers and industrialists organized around two private domestic banks, Banco Nicaragüense (BANIC) and Banco de América (BANAMER). Using both rewards and pressures, Somoza allies extended their presence into the business community as competitors and partners.

This relationship generated tensions, especially during the third incarnation of the dynasty under Anastasio Somoza Debayle (1967–1972 and 1974-1979), as corruption levels escalated and political violence increased. In the early 1970s, the business community began to organize around this discontent. A business peak association, COSIP (later COSEP) formed in February 1972, bringing together business leaders across a dozen sectoral networks and chambers (see table 1). This business coalition provided organizational space in which to coordinate deepening elite opposition to the regime. In the wake of massive corruption involving relief aid following the 1972 Managua earthquake, COSIP leaders called for administrative and political changes to improve accountability and transparency (COSEP 2012b). As regime repression led to an escalation of violence and conflict in the late 1970s, some sectors of the elite began to shift into the slowly building opposition. Several prominent producers came to support the FSLN-led uprising against the dynasty, actively cultivating diplomatic support for the insurgency and providing financial resources and protection to the rebels. Following the 1978 assassination of one of their own, *La Prensa* editor Pedro Joaquín Chamorro, a growing number of business leaders endorsed recurring general strikes, contributing to an escalation of the conflict and Somoza's ultimate departure from power the following year.

Although several representatives of business were initially incorporated into the revolutionary government, and some disaffected youths from elite families joined the revolutionaries in the political takeover, the relationship between the business elite and the Sandinista regime quickly soured. Under FSLN leader Daniel Ortega, the Sandinista Revolution (1979-1990) created a mixed economy that prioritized state-centered accumulation. The new government seized the assets of the Somoza family and its allies, thus acquiring extensive agricultural holdings and a large network of industrial and commercial firms. Private banks collapsed during the insurrection, and were replaced by state-owned banks. The government quickly assumed monopoly control over the export of major commodities, eliminated private trading firms, and imposed increasingly complex regulations on trade and domestic transactions. As the 1980s wore on, other expropriations followed, sometimes targeting top business leaders.[3] By the end of this era, about 30 percent of GDP was controlled by the state sector, and the private sector faced extensive regulation (Spalding 1987; Conroy 1990; Martínez Cuenca 1990; Solà Montserrat 2007). Traditional elites lost economic and social power; many of those who could, moved into self-exile, generally to the United States.

Conflict over the regime's self-styled "socialism" and alliance with Cuba fueled the "contra" war, which the Reagan administration (1980-1988) sponsored and financed in an effort to destabilize the Sandinista government. With the economy contracting, hyperinflation raging, and the war imposing large human and material costs, Nicaraguan voters chose a change of course in the 1990 presidential election. The George H. W. Bush

[3] COSEP president Enrique Bolaños had land holdings expropriated in 1985, as did three leaders of the coffee producers' sector in 1989, including future president Arnoldo Alemán. The Pellas family temporarily lost its flagship investment, the San Antonio sugar mill, in what became a forced sale, although the property was returned in the 1990s.

administration (1988-1992) funded Violeta Chamorro's campaign against Sandinista leader Daniel Ortega, and greeted her victory with a promise of additional assistance. Chamorro's election was followed by a 16-year period in which leaders from the business community took the political helm and the country shifted toward the neoliberal development model.[4] During this period, the Nicaraguan economic elite experienced both dislocation and new opportunities, leading to further reconfiguration.

This adjustment, and the reconstitution of the Nicaraguan business class that resulted, were facilitated by large aid flows.[5] A list of conditions governed these flows, which included reductions in government spending, re-establishment of private banks, re-licensing private trading companies, privatization of state-owned enterprises, and contraction in the size of the government workforce. Of the 351 state-owned firms slated for divestiture, the government had privatized, liquidated or transferred 233 by 1992 (World Bank 1995). According to the Corporaciones Nacionales del Sector Público (CORNAP 1993), the state holding company responsible for managing state property, 30% of transferred state lands were returned to former owners; 32% went to farmworkers on these estates; 17% to those discharged from the army; and the remaining 21% to demobilized "contra" fighters. As the economy began to recover, new export firms began to emerge, filling the void that was left when state trade monopolies were eliminated in

[4] Antonio Lacayo, Minister of the Presidency and son-in-law to Violeta Chamorro (1990-1997), had been general manager of GRACSA, board member of the Chamber of Industry (CADIN) and spokesperson for CORDENIC, a moderate business voice that emerged at the end of the Sandinista Revolution; Nicaraguan president Arnoldo Alemán (1997-2002) had been a leader in the coffee producer association before becoming mayor of Managua after the 1990 FSLN defeat; President Enrique Bolaños (2002-2007) had been long-term leader of COSEP during and after the revolution.

[5] Total official development assistance from all bilateral and multilateral sources was an annual average of 30 percent of GDP in the 1990-96 period (Solà Montserrat 2007, 123).

1991-92. Import tariffs were unilaterally reduced, allowing consumer goods to enter with fewer restrictions and triggering a commercial boom.

As elsewhere in Central America, market reform in the 1990s opened important opportunities in the financial sector (Segovia 2005; Colburn and Sánchez 2000, 71-74), and the Nicaraguan banking sector quickly reconfigured. Eleven private banks set up shop between 1991 and 1994, including five that proved durable: Banco de América Central (BAC) founded in 1991; Banco de la Producción (BANPRO) founded in 1991; Banco de Crédito Centroamericano (later LAFISE Bancentro) founded in 1991; Banco de Finanzas (BDF) founded in 1992; and Banco Uno (beginning in 2008, Citibank de Nicaragua) founded in 1992.[6] Some of the original banks, such as Interbank, founded in 1992, represented new economic groups, and did not endure. Others, such as Credomatic/BAC and LAFISE Bancentro, marked the return of Nicaraguan banking entrepreneurs who had networked with financial operations abroad, particularly in Miami. Transnationalized through self-imposed exile, these returning Nicaraguan bankers were the first in Central America to expand into the regional market, offering credit card services, currency exchange and offshore banking (Segovia 2005, 47). In the meantime, the state banks retrenched; the Banco Nacional de Desarrollo (BANADES), the main source of agricultural credit, sharply cut staff and branch offices before closing its doors in 1998 (Enríquez 2010).

Sustained, single-minded attention to economic reform was provided by the IMF, which renewed lending in Nicaragua in 1991 following massive devaluation and a series of policy agreements (Lacayo Oyanguren 2005). Between 1994 and 2002, three multi-

[6] See the Superintendencia de Bancos y de Otras Instituciones Financieras, www.siboif.gob.ni/documentos/bancos/informes, accessed May 7, 2013; International Business Publications 2013, 220-222.

year structural adjustment loans were signed with the IMF. According to a Government of Nicaragua (2000, 14) report on structural reforms undertaken in the 1990s, public sector employment (including the armed forces) dropped from 285,000 to 89,000 between 1990 and 1999. Once the economy stabilized, the government moved to privatize the remaining state banks, telecommunications and electricity, and further liberalized trade under the second structural adjustment plan, which was launched in 1999 (IMF 1999; Solà Montserrat 2007, 130-47). ENITEL, the national telephone service, was privatized in 2001, with Telefónica (Spain) and Grupo América Movil (Mexico) becoming the dominant service providers. The concession for electrical distribution went to the Spanish corporation Unión Fenosa (subsequently Gas Natural Fenosa).

Market transition produced some quick benefits. Inflation dropped sharply from 13,490 percent in 1990 to 12 percent in 1996 (Solà Montserrat 2007, 117), and economic growth resumed in 1994, after almost a decade of contraction. The average annual GDP growth, which in the 1980-89 revolutionary period was –1.4 percent, improved to 2.4 percent in 1990-97 and 3.5 percent in 1998-2003 (ECLAC 2010c, 53). Merchandise exports, which registered an average annual -3.8 percent decline in 1980-89, grew an average annual 9.4 percent in 1990-99 (ECLAC, 2010b, 69), in part due to the expanding export processing zones (EPZs). Enjoying 100% tax exemption for 10 years (and 60% thereafter) in Nicaragua, the number of EPZ companies increased from 5 (with a workforce of 1,000) in 1990, to 45 (with a workforce of 37,000) in 2001 (PNUD 2003

129, 133). Non-traditional agricultural exports became another source of growth, strongly encouraged by USAID.[7]

Rapid privatization and new regulations lacked transparency and allowed rent-seeking behavior, and well-placed investors moved to extract regulatory and tax concessions (Mayorga 2007; Medal 2012). Hardships associated with the loss of state bank credit and trade protection combined with evidence of favoritism to weaken business cohesion around neoliberal adjustments (Spalding 1997; Colburn and Sánchez 2000, 53-67). Already damaged by a decade of warfare, the destruction and deterioration of infrastructure, and soaring domestic poverty levels, many found themselves unable to adjust to the new rules. Even with substantial US and subsequently multilateral aid in the early years, some historical elites struggled to meet the changing demands.

The gradual consolidation of the new economy allowed the beneficiaries of economic opening to gain momentum and begin reorganizing business alliances. As elsewhere in Central America, powerful economic groups quickly coalesced. After shifting away from Nicaragua during the revolution, major economic groups returned and extended their presence across the region, with many of them anchored in the rapidly expanding private banks (Segovia 2005; Mayorga 2007). The Pellas and Lafise groups, now transnationalized, were reconfigured under a new generation of leaders. These groups expanded both within Nicaragua and elsewhere in the Central America as markets

[7] Unlike Costa Rica, where the contribution of agriculture to GDP fell from 12.7% in 1990 to 7.9 percent in 2004, or El Salvador, where it fell from 16.5% to 9.2%, Nicaragua's agricultural sector only declined from 18.8% to 18.1% of GDP in this period (Solà Montserrat 2008, 104). This outcome in Nicaragua was in part due to the 62% increase of land in production between 1990 and 2003 (Solà Montserrat 2008, 107), following the end of the contra war.

opened. Leading Nicaraguan business leaders reorganized themselves into "diversified business groups," defined as "a collection of firms operating in different sectors, subject to centralized ownership and financial control by a single family or family network" (Bull 2013, 268). Some of these Nicaraguan groups, such as Grupo Pellas and Grupo Promerica (BANPRO), became regionalized; others, such as CALSA, focused on increased MNC product distribution within Nicaragua (Bull and Kasahara, forthcoming)

The Pellas Group, under the leadership of Carlos Pellas Chamorro since 1985, grew to include 21 affiliated companies in 2012. Beginning with Nicaragua Sugar Estates, Limited, the family business founded in 1890, the Pellas Group came to encompass an array of financial, commercial, energy and tourism operations, including several companies elsewhere in Central America.[8] The LaFise Group is of more recent origin. Initially established in Miami in 1985 with the participation of Nicaraguan exiles, LaFise focused on financial services, including foreign debt rescheduling and currency conversion in Central America. In 1991, LaFise Vice President Eduardo Montealegre Rivas, son of BANIC founder Eduardo Montealegre Callejas, returned to Nicaragua as

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[8] The Grupo Pellas website http://www.grupopellas.com/empresas.htm, accessed in October 2012, provides information about these investments. In its historic areas of concentration, sugar and sugar by-products, including the Compañía Licorera de Nicaragua, source of Flor de Caña rum, the group expanded regionally, adding Compañía Chumbagua in Honduras and Grupo Alcoholes del Istmo of Panama, among others. Grupo Pellas' sugar mill and land investment in Polochic Valley, Alta Verapaz, Guatemala, acquired through an 88% shareholding in Chabil Utzaj, S.A. in June 2011, was soon mired in claims about displacement of Kekchi Mayan peasants (ECLAC 2013a, 99-100).

Pellas Group activities in Nicaragua included auto sales, rental and repair (Casa Pellas), industrial production (E. Chamorro Industrial), telecommunications (CEM JWT), insurance (Seguros América), health services (Hospital Vivian Pellas), television (VosTV), wireless communication (Coínca), warehouse and shipping (Alpesa), and sports facilities (Zona Deportiva). Although the family had been a leader in the banking sector, Grupo Pellas sold most of BAC to GE between 2005 and 2010, retaining BAC-Florida. Its Central America businesses included GBM (IBM distributorship), Distribuidora Istmania in Honduras, and Distribuidora Salvadoreña. Pellas Development Group, founded in 2005, involved upscale real estate and luxury tourism development ventures, with partnered investments in Costa Rica (Santa Elena Preserve), Panama (Santa María Golf and Country Club) and Nicaragua (Guacalito de la Isla).

General Manager of the newly opened Banco de Crédito Centroamericano (Bancentro).[9] With Nicaraguan banker Roberto Zamora Llanes as president, LaFise grew to operate financial services in eleven countries (Nicaragua, Honduras, Costa Rica, Panama, Guatemala, El Salvador, Dominican Republic, Venezuela, Colombia, Mexico and the United States).[10] The Pellas and LaFise groups developed some of Nicaragua's major banks (BAC and Bancentro), which, along with BANPRO, quickly emerged as the country's largest and most rapidly growing in the 2000-2012 period (see table 2).

Table 2: Nicaraguan bank assets (December 31, in million current córdobas)

	2000	**2006**	**2012**	**Ratio 2000-2012**
BANPRO	4429	14952	36096	1:8.1
BANCENTRO/LAFISE	3909	12669	30406	1:7.8
BAC	3237	9867	25588	1:7.9
BDF	3846	6775	11613	1:3.0
Citibank (Banco Uno)	2891	4511	5457	1:1.9

Source: Superintendencia de Bancos y de Otras Instituciones Financieras www.siboif.gob.ni, accessed May 7, 2013.

Nicaragua also attracted investments from economic groups that emerged elsewhere in Central America, including the Salvadoran Grupo Taca, which made airline acquisitions throughout the region, and the Salvadoran Grupo Poma, with investments in major malls, including Managua's Metrocentro (Segovia 2005, 154-65). The relatively low crime rate in Nicaragua, compared to El Salvador, Honduras and Guatemala, and low production costs, compared to Costa Rica, attracted investor attention, as did deregulation and a

[9] Montealegre served as general manager of Bancentro from 1991-1997 before he launched a political career. For LaFise Group background and holdings, see http://www.grupolafise.com/info-corporativa.aspx, accessed in October 2012.
[10] LaFise acquired 49% of the Nicaraguan operations of the Italian company Parmalat in 2004, and bought out the remainder in 2009.

strengthening record of investment protection. Several Nicaraguan business groups partnered with transnational corporations, including La Perfecta (with Parmalat in 1999), Tip Top (with Cargill in 2000), and Café Soluble (with Nestle in 2006) (Rocha 2011).

As the banking sector, non-traditional exports (including *maquila* production), agro-industry, and new waves of commerce expanded, elites entering these growth areas gained organizational capacity. Entrepreneurs in this renovated elite embraced and promoted deepening market reform. These sectors provided active support for regional integration and free trade agreements with the United States (CAFTA), Canada and the European Union, looking to serve as domestic partners to incoming foreign investors and as exporters to now more legally secure markets in the North (Spalding, forthcoming).

The relationship between the business sector and the FSLN was generally adversarial in the post-revolutionary period, particularly in the COSEP wing, but these links were multifaceted and complex. Dating back to the 1980s, some producers, characterized by the Sandinista government as "patriotic," acquired land or made new investments that positioned them well for the subsequent neoliberal transition (Spalding 1994). Others were elite family descendents who had taken positions in the Sandinista government; with the 1990 electoral ouster of the FSLN, they now resumed their place in family businesses, searching for opportunity. Some segments of the post-revolutionary elite were former Sandinista officials who had acquired assets in the "piñata," the free wheeling appropriation of state goods following the 1990 defeat. To the extent that these elites claimed identification with the FSLN, the *embourgeoisement* of the party leadership began to reshape the economic orientation of the FSLN itself.

The neoliberal development model employed in the post-revolutionary period halted Nicaragua's economic contraction, but it failed to stimulate sustained growth or generalized opportunity. Nicaragua remained the second most impoverished nation in Latin America and the Caribbean, with a tattered infrastructure and rising illiteracy rate. The poverty rate fell in the 1990s, as the economy began to recover, but it remained high and stagnant in the early 2000s, in spite of debt relief associated with Nicaragua's HIPC (heavily indebted poor country) status and a formal government commitment to poverty reduction. The FSLN remained the country's largest political party, with a substantial voting bloc that brought frequent victories at the local level. Political infighting by the anti-Sandinista forces, triggered by the corruption conviction of former president Arnoldo Alemán, produced a rupture on the right in the early 2000s. This fissure shaped the 2006 presidential election, and competition between these factions allowed Daniel Ortega to regain the office.

3. Business Sector Reorganization

As new economic sectors began to emerge, business chambers reorganized around growth industries. New chambers were established in the banking, Free Trade Zone and tourism sectors; these associations allowed sectoral leaders to better coordinate around shared interests. As in Costa Rica and El Salvador, a specialized association for exporters was established, with USAID covering its initial operating expenses. This organization, the Association of Nicaraguan Producers and Exporters (APEN), created in 1991, brought together non-traditional agricultural exporters who were looking for new markets. The American Chamber of Commerce-Nicaragua, which had been founded in

1975 but ceased to function once the Reagan administration halted trade with Nicaragua, now reopened and quickly expanded.

In spite of the reconstitution and economic advance of market-oriented business interests, COSEP atrophied in the 1990s. COSEP leaders, forged in the conflagrations of war and revolution, had a difficult time shifting away from the confrontational politics of the 1970s and 1980s.[11] Their brittle political style made it difficult to attract new members, and several of the newly formed or resuscitated business chambers, such as APEN and the revived bankers association, initially eschewed affiliation. COSEP suffered budgetary difficulties as member chambers fell behind on their dues payments, limiting the organization's activities and making it dependent on international aid (Spalding 1998). Peak association atrophy encouraged disarticulated bargaining by individual business leaders, as the well placed used decentralized deal making to secure exceptions, loopholes and exemptions that favored their personal interests.

As the 2006 election wheeled into view, Nicaraguan business elites began taking steps to improve business coordination. COSEP's highly politicized leaders of the 1980s and 1990s had spiraled off into political parties and electoral campaigns, and new association leaders emerged. These incoming leaders were a generation younger than their immediate predecessors, and they intersected differently with the conflicts of the preceding era. According to rising COSEP leader José Adán Aguerri, the new generation moved to "substitute our new vision for that of our parents" (Aguerri 2006). Redefining their organizational strategy, they focused on pragmatic lobbying instead of confrontation.

[11] COSEP president Enrique Bolaños had vied to be the opposition's candidate in 1990, and COSEP took an adversarial stance against the Chamorro government (Spalding 1998). Two COSEP business leaders resigned as Chamorro advisers on her inauguration day and COSEP representatives refused to sign *concertación* agreements that the new government oversaw during the post-revolutionary transition year.

Priorities now emphasized expanding investment opportunities, targeted policy pressure, and improving membership services.

New COSEP leaders took two steps to strengthen the organization and insert it more fully into the economic policy planning process. The first step was to formally connect the country's top business groups to COSEP's organizational apparatus. The second was to expand the breadth of the organization by securing the affiliation of previously independent businesses and chambers. New organizations became COSEP affiliates, and established associations like UPANIC, CACONIC and CADIN worked to recruit new members. COSEP chambers gradually opened their doors to business owners who had been officials in the Sandinista government, or their close family members, as ideological battles waned and pragmatic coordination was emphasized.

a. The *Consejeros*

Traditionally, the country's largest business groups had little need for formal chamber organizations. Their high profile as investors, technological leaders, and employers gave them the ability to negotiate directly with the Nicaraguan government and to gain access to representatives of friendly governments and international financial institutions. Although these elites often had some connection to the formal business chambers, they generally associated through the managers of their enterprises or through occasional donations to support particular initiatives. The absence of comprehensive elite links diminished COSEP's ability to speak on behalf of business as a whole or to coordinate a common business position.

COSEP leaders sometimes decried this disconnect, recognizing its costs in terms of political capital. Following long conversation about the need for better coordination,

COSEP announced the creation of a *Junta de Consejeros* in August 2006, naming eleven major business leaders to its advisory board. Those named included movers and shakers in the country's main financial establishments and the heads of major export and business consortia.[12] Members were selected through a laborious process in which both COSEP's *junta directiva* (composed of presidents and two other members of each affiliated chamber) and prospective *consejeros* themselves had mutual veto power over the nominees. To have their name advance, advisory board members had to agree to attend board meetings personally, contribute an annual quota, and collaborate actively on organizational initiatives ("Junta de Consejeros" 2007, 24). The process improved COSEP's bargaining position, as it reinforced the organization's role as the formal representative of business interests. At the same time, this step made COSEP more dependent on the contributions and input of the dominant business groups, papering over differences that emerge between these more transnationalized elites and those with fewer resources who are more focused on the domestic market.

b. Expanding COSEP's networks

The organization's second step involved broadening its base by recruiting new chambers and individual members into the COSEP network. The 1990 electoral dismissal of the FSLN government and the following economic transition had encouraged the

[12] The members of COSEP's original *junta de consejeros* were José Antonio Baltodano Cabrera, Alberto Chamorro Chamorro, Ernesto Fernández Holmann, Miguel Gómez César, Ignacio González Holmann, César Augusto Lacayo Lacayo, Rene Morales Carazo, Ramiro Ortiz Mayorga, Carlos Pellas Chamorro, Roberto Zamora Llanes and Miguel Zavala Navarro. This list included the presidents of BANPRO (Ramiro Ortiz Mayorga), LaFise/Bancentro (Roberto Zamora Llanes), BAC (Carlos Pellas Chamorro) and Banco UNO (Ernesto Fernández Holmann), along with leaders of major commercial and export operations from the Grupos CALSA (César Augusto Lacayo Lacayo) and Mercon (José Antonio Baltodano Cabrera). Two other business leaders, Juan Bautista Sacasa (president of BDF) and Jaime Rosales (Compañia Cervecera de Nicaragua), were added in 2012 (COSEP 2007, 10-11; Aguerri 2012).

resuscitation of old business chambers that had disappeared during the revolution. As table 1 indicates, three chambers that had been active in the 1970s but dissolved or fractured during the Sandinista Revolution (CONAPRO, for professionals; ANDIVA, for auto distributors; and CAPENIC for the fishing industry) reemerged in the post-revolutionary period and rejoined COSEP. In addition, several new chambers had developed in the 1990s in response to expanded economic openings. Three of these associations, APEN (exports), ANAPA (poultry and animal feed), and CANATUR (tourism) now joined the organization, raising COSEP's membership tally to eleven by 2007.

Between 2008 and 2012, COSEP's associational network grew rapidly, with the addition of eight new chambers (see table 1). COSEP's central role as the business interlocutor consolidated as association membership built to 19 affiliates, with five new chambers joining in 2008 alone. Two of these new members represented businesses in the export processing zones (ANITEC, founded in 2005, and FCNZFP, founded in 2006) ("Sector privado" 2008, 12). Other new COSEP affiliates included agrochemical distributors, who had established their own chamber (ANIFODA, founded in 1979), as did coffee exporters (EXCAN, founded in 1974 but dissolved during the revolution); housing and real estate developers who founded CADUR in 1993; and mining businesses which had established CAMINIC in 1995. Business services in the private health sector set up an association (CANSALUD) under the leadership of pre-revolutionary civic leader Ismael Reyes, and joined COSEP in 2009. Under a modified regime, the Private Bank Association (ASOBANP) also established an affiliation. Resuscitated and redefined

in the second Ortega period, COSEP now drew almost all of the country's business organizations into its orbit.[13]

The recrudescence of COSEP in the 2006-2013 period responded in part to the dual perception of threat and opportunity. In a process that Ben Ross Schneider (2004, 36) has labeled "defensive encompassing organization," greater business unity can emerge in response to a perceived potential threat. The impending return of Sandinista leader Daniel Ortega to the presidency raised an alert with the business community, given the historical clash between the FSLN and economic elites and the concerns it could raise abroad. At the same time, the new Ortega government sought to build a "gran alianza," including partnership with the business sector in the design of a new national development strategy. The residual threat posed by the return to power of an historical adversary, combined with the opportunity to engage in structured collaboration, encouraged the organizational consolidation of the Nicaraguan business elite.

4. The Return of Ortega

Daniel Ortega was re-elected in 2006, under terms negotiated in the Alemán-Ortega "governability" pact in 2000. These rules allowed a winner to emerge with a minimum of 35% of the vote, if the vote received by the second ranked candidate trailed by more than

[13] In addition to the increased number of affiliated chambers, individual membership in several associations expanded. Various COSEP business groups cultivated links to small business networks, thereby enhancing their profile as comprehensive sectoral representatives in their negotiations with the government and international donors. See, for example, the COSEP agreement signed with COSUMIPYME (Consejo Superior de la Micro, Pequeña y Mediana Empresa) in 2007, creating "Strategic Cooperation Alliance." ("Firma del convenio." 2007: 30). CADIN also changed its statutes in 2006 to make it easier for small and medium-sized industries to join.

5 percentage points. With support from only 38% of the voters, Ortega returned to the presidency in January 2007.

Electoral calculus and what remained of its earlier populist incarnation prompted the Sandinista government to deploy populist rhetoric and design social and economic policies that offered benefits to marginalized sectors. Almost half of the population met the World Bank definition of poverty in 2005, and more than one in six lived in extreme poverty (INIDE 2007; World Bank 2008). At the same time, the government depended heavily on the support of external funders, and would be unable to ensure economic stability without the cooperation of its own business class. The hard lessons of the 1980s demonstrated the need to secure on-going private investment, loans and markets in order to maintain production and sustain growth. Although the number of large businesses in Nicaragua was modest,[14] this sector was irreplaceable and critical to the country's economic future.

The Ortega camp had worked hard to project a post-partisan image during the campaign, forsaking its traditional red and black colors in favor of bright pink, and proclaiming its commitment to reconciliation with former adversaries. Along with hisc courtship of the Catholic Church and ex-contra leadership, Ortega sought to build stronger connections with the business community. As he had in his unsuccessful presidential bid in 2001, Ortega named a business leader as his vice presidential running mate in 2006. This time he selected Jaime Morales Carazo, a former banker and business leader whose expropriated home had become Ortega's residence and office following

[14] Out of a total of 121,919 businesses surveyed in the 2001Censo Económico Urbano and updated administrative records, only 808 were classified as "large" (BCN 2013c, 59). The large firms category included 109 educational institutions, leaving only 699 "large" businesses outside the educational field.

Somoza's ouster. This odd alliance signaled that the self-declared "second phase of the Sandinista revolution" would be different from the first.

These new alliances were facilitated by the development of firms, such as Agricorp, which were associated with high-ranking FSLN officials.[15] Founded in 2000, Agricorp became the country's largest rice importer and distributor, employing 692 staff "associates" in 2011 (Agricorp 2011, 42). It expanded during the early 2000s under the Programa de Apoyo a la Producción (PAPA), a government-sponsored strategic alliance with rice producers, processors, and distributors that was designed to improve product quality and stabilize prices. As it built processing and import facilities, Agricorp constructed an extensive domestic distribution system for basic staples (rice, wheat flour, corn meal, beans and sugar), becoming what its critics called a "de facto monopoly" in the critical rice sector (Olivares 2003).

The link between a prominent FSLN leader and Agricorp, along with other FSLN-connected business interests, colored the image of the party at the elite level.[16] On the one hand, Sandinista business elites were competitors, serving as rivals in a market system; on the other hand, their involvement in the business arena strengthened their commitment to macroeconomic stability, tax restraint, and market integration, aligning

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[15]Agricorp was associated with FSLN Comandante Bayardo Arce through his wife, Amelia Ybarra Brodgen, who sat on its board, and her brother, Amilcar Ybarra-Rojas Brogden, who served as its president. This company was sometimes presented in the national press as a Sandinista business (see, for example, Loáisiga Mayorga 2005). According to a 2011 formal filing by the business, its ownership structure is complex, involving interlocking rice export businesses in the US and Panama (Agricorp 2011).

[16] There is no clear or widely agreed upon definition of what constitutes a "Sandinista business." This label tends to be employed loosely in Nicaragua to include any business owned or represented by current or former FSLN officials or Ortega family members. Some of the business ventures in which former FSLN officials were represented, such as Interbank, did not survive the economic transition. Other Sandinista-connected businesses, such as Agricorp, flourished and became leaders in their sector.

their interests with those of other economic elites. As a pro-business wing of the FSLN, commonly identified with former Comandante Bayardo Arce, consolidated, business-FSLN relations became less acrimonious. With Ortega's return to power, various forms of consultation emerged.

Although this degree of collaboration with the business elite was path breaking for the FSLN, state-business alliances are recurring features of many political systems (though attenuated by alliances with popular sectors in more social democratic ones). State leaders commonly seek cooperative contact with business leaders, and often play a critical role in fostering business sector organization. In his study of the historical development of fifteen business associations in five Latin American countries, Ben Ross Schneider (2004, 26-31) highlighted the impact of state engagement and identified a series of incentives that motivate state actors to promote business organization. These included their desire to increase business support and reduce opposition; their need to identify business preferences and exchange information; and their hope to secure collaboration, promote compliance, and share or delegate responsibilities. A cooperative relationship with business associations can also be useful when state leaders need elite support in order to resist pressures from other powerful actors. In the Nicaraguan case, business collaboration would provide a valuable resource in the event of a face-off with major external actors, such as the IMF or disgruntled sectors of the US government, as discussed below.

Incentives for collaboration were not confined to state leaders; business leaders also were highly motivated to promote improved communication. Prominent Nicaraguan business leaders lost no time seeking contact with the president-elect. Four days after

Ortega's November 5th electoral victory, COSEP president Erwin Kruger, leaders of affiliated chambers, and Junta de Consejeros members met with Ortega and his vice president to initiate a dialogue ("Visitas y Eventos" 2007: 79). This interaction launched a series of meetings through which the business sector was formally incorporated into a consultative process with the government. Over the following months, the COSEP group designed an "ejes de desarrollo" process, in which COSEP *consejeros* and chamber leaders met regularly with the vice president and the president's adviser for economic affairs, Bayardo Arce, and developed a discussion framework organized around thirteen key themes.[17] Business leaders sorted themselves into working groups based on their expertise and areas of interest.

Seven of the eleven high-powered COSEP *consejeros* joined these working groups ("Los Ejes de Desarrollo" 2007, 22). These business leaders included the presidents of the country's three largest bank groups, Carlos Pellas (BAC), Ramiro Ortiz (BANPRO), and Roberto Zamora (LaFise-BANCENTRO), who all joined the working group on finance, along with COSEP president Erwin Kruger. Pellas, whose family's traditional holdings in the sugar industry had been expanded into ethanol production, and who was developing a luxury tourism project in the Tola area, also joined the sugarcane and the tourism working groups. BANPRO's Ramiro Ortiz and COSEP vice president José Adán Aguerri joined the energy subsector, along with four others who represented companies with investments underway in this field. Other chamber officials took their seats in the working groups that aligned with their business interests and expertise. These business representatives included Sandinista officials or family members who had risen to

[17] Working groups were formed on energy, infrastructure, livestock, peanuts, coffee, food chains, fishing, sugar and agroindustry, tourism, manufacturing, the Atlantic Coast, finance, and technical education.

leadership positions in their business chambers and took seats in the working groups on food chains and tourism.

Although Ortega continued to criticize US "imperialism" and align closely with Venezuelan president Hugo Chávez, Iranian president Ahmadinejad, and Libyan president Gaddafi, the government's relationship with Nicaraguan business elites and foreign investors proved generally cooperative. COSEP leaders and *consejeros* began meeting periodically with Ortega in formal sessions that were hosted by INCAE, the Harvard-affliated Central American Business School. Policy discussions led to new forms of collaboration, including the creation of a *Comisión de Seguimiento*, requested by COSEP and established by Ortega in March 2009. This commission, formally composed of three representatives each from COSEP and the government, established a process of monthly meetings in which proposals were made and views were exchanged.[18]

In 2008, COSEP introduced a modernized outreach strategy designed to influence the legislative agenda. It hired a lobbyist and designated carefully selected COSEP leaders to cultivate relationships with each of the party benches. According to its internal analysis, COSEP successfully collaborated on 53 laws that were approved by the legislature during the 2008-2012 period (COSEP 2012b, 25). In 2010, over 60% of all approved laws, and all but one of the economic laws, were found to involve the active collaboration and endorsement of COSEP delegates (COSEP 2011, 44). COSEP's legislative interventions addressed a wide array of concerns. Its recommendations on pending legislation in 2012, for example, which were presented to Bayardo Arce at the *Comisión de Seguimiento* meeting early that year, involved efforts to secure tax benefits for agricultural producers,

[18] GRUN 2009; see also summary reports on these meetings posted at the COSEP website.

to promote the government-backed social housing program, and to contain energy price increases, among others (COSEP 2012c, 9).

The growing number of government-sponsored institutions and councils on which COSEP secured formal representation facilitated this outreach effort. By 2011, COSEP had official status on oversight boards for eleven public-private institutions, ten councils, four ministries and government agencies, and the presidential commissions on investment and trade facilitation, all in addition to the *Comisión de Seguimiento* which guaranteed a monthly exchange with high-ranking FSLN officials (COSEP 2012a, 2-3).[19] These formal positions gave the business sector a seat at the table for board meetings of the central bank, the banking system oversight board, and the newly created state development bank, *Banco Produzcamos*, as well as an array of institutes governing social security, technical education, tourism, and competitiveness.

The Ortega government's 2011 progress report (GRUN 2011, 41) highlighted three areas in which the consultation between business, workers and government fostered cooperative relations: the minimum wage negotiations, a 2009 tax adjustment in the Fiscal Equity Law, and a social housing plan to expand low income housing. Under the new Minimum Wage Law #625, which was finalized in June 2007, COSEP representatives were incorporated into the tripartite commission that negotiated minimum wage changes. This new law allowed representatives of business, workers and the government to set bi-annual wage increases for workers in eight different economic sectors (Tuckler 2008, 24-25).[20]

[19] In 2013, COSEP (2013b, 32) reported securing official representation in 39 public-private boards, with another 10 slots proposed or underway (COSEP 2013a).
[20] If the three sectors failed to reach consensus after two months of negotiation, the Minister of Labor was authorized to act unilaterally. For wages falling below the value of the basic food

According to the government's 2012-2016 draft development plan (Oquist 2012, 41), these negotiations increased minimum wage rates by 133% between 2007 and 2011, far surpassing the official 73% inflation rate during that five-year time period. The biggest wage increases came in 2007 (18%) and 2008 (35.7%), when the three sectors failed to reach a consensus and the Labor Minister decreed the increase (COSEP 2012b, 32). However, even when tripartite agreement was subsequently achieved, real minimum wage increases continued, albeit at a slower pace. The business sector's willingness to accept real wage increases in the 2009-2012 period was viewed by the government as a sign of cooperation, as was business acceptance of the 2009 Fiscal Equity Law, which modestly increased tax revenues as the government worked to stave off fiscal crisis during the global recession. When the government, pressured by the IMF to address tax loopholes and subsidies, returned to tax reform in 2012, business leaders were given a privileged position in the negotiation process. The *Ley de Concertación Tributaria* was elaborated in a closed-door process in consultation with business and labor representatives, and then approved quickly by the FSLN-controlled legislature in November 2012.[21]

COSEP representatives were not always successful in their negotiations with the government, and business leaders complained periodically about the outcomes. COSEP's 2012 report on the minimum wage increases, for example, registered dissatisfaction with the process and raised concern that Nicaragua's low wage status relative to other Central

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basket, increases were to reflect both the inflation rate and production growth within that sector (Tuckler 2008, 24-25).

[21] The new tax law reduced the tax rate over a five-year period, although it raised the requirements for tax exemptions, mandating that recipients of exonerations demonstrate increased productivity, exports, employment generation or the use of new technology (BCN 2013a, 84-85; COSEP 2012e).

American countries was being lost (see COSEP, 2012d, 34-36).[22] COSEP leaders were also unsuccessful in securing the office in the National Assembly building that they requested and in persuading the executive to institutionalize the ad hoc *Comisión de Seguimiento* through legal codification of the process and legislative ratification (Olivares 2011). In spite of these tensions, business leaders proclaimed general satisfaction with the relationship they had secured with the regime. The unanimous re-election of COSEP president José Adán Aguerri for a sixth one-year term in September 2012 demonstrated broad-based business support for continuation of this collaborative strategy.

The business sector made certain concessions to the government, as required by circumstances and their own development vision, and in return received opportunities to make their case about desired legislation, urgent priorities, and the requirements of a supportive business climate. The Ortega government's ability to ensure labor peace, promote macroeconomic stability, foster economic growth, increase foreign investment, and expand export markets trumped the recurring problems of institutional weakening and limited transparency, which the business sector continued to bemoan.

5. Growth and investment under *Orteguismo*

Contrary to fears of renewed strife or economic contraction, the Nicaraguan economy experienced increased growth under the Ortega administration. As elsewhere in the region, the 2009 recession took a toll, but the GDP growth rate recovered quickly. Nicaragua's economic growth rate of 5.1% in 2011 and 5.2% in 2012 was well above the 4.3% and 3.0% average for the Latin American and Caribbean region as a whole, and

[22] According to PRONICARAGUA's (2011, n.p.) comparative wage assessment, however, the 2010 free zone minimum wage in Nicaragua remained the lowest in Central America ($.94 an hour, including benefits, compared with $1.24 in El Salvador and $2.86 in Costa Rica).

topped the 4.3% and 4.3% average for the Central American region (ECLAC 2013b, 21). The 2012 growth was particularly strong in construction (32%), mining (8%), transportation and communication (7%) and electricity, gas and water (5.7%) (BCN 2013c, 8).

Economic expansion was supported by new investment flows, some of which were funneled through the public sector. One of Ortega's first actions after his 2007 inauguration was to join the Venezuela-sponsored Bolivarian Alliance (ALBA). In the years that followed, Nicaragua received substantial petroleum-based assistance and direct investment from the government of Hugo Chávez (see table 3). Between 2008 and 2012, Venezuelan aid to and investment in Nicaragua totaled over US$2.8 billion (BCN 2013b, 11), with annual amounts equivalent to around 7% of GDP (IMF 2012a, 13).[23] These flows represented opportunities, from which the Nicaraguan business sector also derived benefits.

Table 3: Venezuelan aid to Nicaragua (million US$)

	2008	**2009**	**2010**	**2011**	**2012**
Loans	306.0	240.6	522.0	564.3	555.7
Donations	24.0	55.4	0.0	0.0	0.0
Direct Foreign Investment	131.0	147.0	11.0	45.0	209.9
TOTAL	461.0	443.0	533.0	609.3	765.6

Source: BCN (2013b, 11)

[23] The loan portion of Venezuelan aid was highly concessional, with 25-year repayment, two years of grace, with a 2% interest rate. (BCN 2013b, 11).

In addition to aid from Venezuela, the Ortega government secured US$659 million in loan commitments from the Inter-American Development Bank between January 2007 and March 2011. These commitments were for 30 projects, primarily in roads and energy (IMF 2011, annex III, 8-9). External donations and long term development loans helped the country to weather the 2009 recession and pursue multiple social and economic development objectives, with only modest increases in taxes. Although Venezuelan aid was controversial with both domestic and international critics due to concerns about transparency and the potential volatility of funds that depend on political ties (IMF 2012a, 11-13), both the Venezuelan and the IDB funding proved a stimulant to the Nicaraguan economy, helping to smooth government-business relations.

In addition to the Venezuelan petroleum aid (half of Nicaragua's oil bill was returned as long-term loans and donations), Chávez's provision of two new generators helped to regularize the electrical supply. Low energy production and erratic distribution were producing lengthy blackouts in urban areas when Ortega returned to the presidency, disrupting daily life and economic production, and affecting the delivery of basic services (water, police, fire, etc.). Regularization of the energy supply was one of the business sector's urgent demands, and the Ortega government, with Chávez's assistance, soon delivered improvement. Among other benefits, more reliable energy supplies reduced one of the barriers to investment, now making Nicaragua a more attractive locale for both domestic and foreign business ventures.

Venezuelan loans and donations were channeled through ALBANISA,[24] a state-sponsored "private sector" organization, and the microcredit lender CARUNA. These resources funded a host of public initiatives, including an urban transportation subsidy, livestock and microcredit transfers, housing construction and improvements, and a monthly wage boost for low-salary government workers (BCN 2013b, 11). Directly or indirectly, these transfers provided an economic stimulus to several sectors, including big business. ALBANISA and CARUNA bank deposits, for example, were concentrated in a few large commercial banks. Totaling 13% of all deposits, these resources provided a temporary boost to the financial sector (IMF 2012a, 12). Business also benefited indirectly from transportation and energy subsidies, which helped to lower their costs and stave off more aggressive labor demands. In addition, the availability of Venezuelan funding allowed the business sector to avoid the increased tax burden that might otherwise have followed to cover the costs of public sector salaries and basic social services.

The deepening relationship with Venezuela also helped to open export flows for Nicaraguan products, and Venezuela soon became a major market for Nicaraguan goods, particularly beef, sugar, coffee and dairy products. Exports to Venezuela, which had been negligible prior to 2007, rose to $444 million in 2012, when Venezuela constituted Nicaragua's third largest market, behind the United States ($765 million) and Central America ($503 million) and ahead of Europe ($315 million) (BCN 2013c: 21).

Nor was the Venezuelan market the only one that expanded during this period. Although still lagging far behind imports, Nicaragua's exports increased rapidly in

[24] ALBANISA, which managed the petroleum aid transfer, was jointly owned by the Venezuelan state petroleum company PDVSA (51%) and the Nicaraguan state petroleum company PETRONIC (49%).

multiple markets. Between 2007 and 2012, export value rose sharply for coffee (from $188 to $522 million), beef (from $180 to $451 million), gold (from $61 to $423 million) and sugar (from $75 to $195 million) (BCN 2013a, 26). The ownership structure of these thriving export industries was highly concentrated (Barriex, Granados, Vodusek and Zeballos 2007). Using data from 2005, Mario A. de Franco and Diego Arias (2011) found that a small number of firms dominated exports (and imports) in key commodities in Nicaragua (see table 4). Two large companies controlled 90% of sugar exports; four slaughterhouses were responsible for 90% of beef exports; and two coffee exporters were responsible for 60% of coffee exports. Increased exports in these sectors brought concentrated benefits to these firms, although the direct producers (as opposed to exporters) of cattle and coffee were numerous and presumably benefited as well.

Table 4: Number and Market Share of Large Agro-Exporters/Importers in Nicaragua, 2005

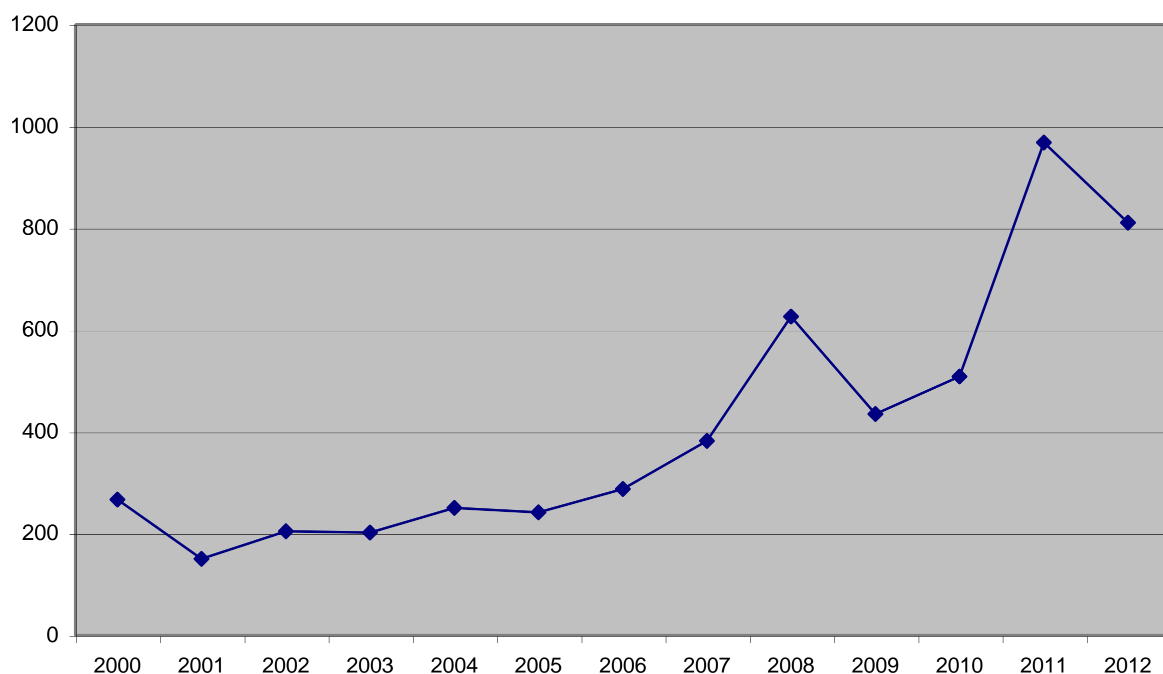
Product	**Number of Large Export (Import) Companies**	**Export (Import) Market Share (% of Total Exports)**
Sugar	2	90
Beef	4	90
Coffee	2	60
Dairy products	1	40
Beans	3	30
Rice (imports)	1	84 and 45*

*84% within quota and 45% over quota

Source: de Franco and Arias (2011, 258).

Direct foreign investment (DFI) also increased during this time period. As table 5 demonstrates, DFI remained flat during the 2000-2006 period, but rose sharply between 2006 and 2008. The US recession triggered a falloff in 2009, but recovery came quickly. DFI levels in 2011 soared to US$968 million, up from only US$287 million in 2006, although it declined to $810 in 2012. Overall during this period, foreign investment was strong in industry, including the free zones, and commerce and services, with important investments in energy and telecommunications. Substantial flows were also found in mining and forestry (AMCHAM-MIFIC-PRONICARAGUA 2011, 56). Although source country varied by year, according to the government investment promotion agency PRONICARAGUA (2013a, 8), four countries provided 70% of direct foreign investment in 2012: the U.S. (25%); Venezuela (16%), Panama (15%) and Mexico (14%).

Table 5: Direct Foreign Investment in Nicaragua 2000-2012
(in million US$)



Source: ECLAC (2012a, 47-48); ECLAC (2013a, 20)

The impact of foreign investment on the domestic elite is undoubtedly complex. In many sectors, foreign investment has few linkages or spillover to local businesses, and provides limited gains. External flows may sideline or displace local elites, and are not, in all instances, welcome. At the same time, as Peter Evans (1979) noted in his classic study of dependent development in Brazil, multinational, state and local capital can also form an alliance in which each develops a distinct segment of the market. Under these circumstances, domestic business groups may flourish, even as DFI and public investments also increase. Foreign investment can open opportunities for licensing and concessions, partnerships, construction projects, service contracts, supply chains, and employment in corporate management. As Bull (2013) observed in the Salvadoran case, the MNC-domestic capital relationship is not necessarily one of subordination; a variety of connections may be forged, ranging from hierarchical management controls to more lateral strategic alliances. Athough foreign investors are easily identifiable in a number of emerging sectors in Nicaragua, domestic elites also appear in key growth sectors, sometimes intertwined with transnational partners and frequently buoyed by state support.

a. Emerging elites

The category of "emerging elites" is the most challenging component of the three-part Central American elites framework. Commentary on this topic requires a daunting degree of guesswork about future growth areas, ownership structures, and unofficial alliances. In the Nicaraguan case, for example, questions may arise about whether the FSLN leadership or Ortega family constitute an emerging sector of the elite. According to some

media accounts, Venezuelan funds have financed a series of new businesses owned or managed by FSLN leaders or Ortega family members. These acquisitions reportedly include a luxury hotel (Hotel Seminole), cattle breeding facilities, construction, transportation and security companies, and a television channel (Canal 8), among others (Chamorro and Salinas Maldonado 2011). The ownership structure of these operations is difficult to document, however, and inspires considerable speculation. In addition, as we have seen, some assets held by producers linked to the FSLN are traditional family resources which date back to the pre-revolutionary period; others, such as Agricorp, emerged during the neoliberal transition period and are linked to the opening trade and investment flows of that era. Clearer answers to questions about the dimensions of an FSLN-linked economic group may emerge only with time.

Another way to approach this question is to examine economic sectors that have emerged only recently and are experiencing rapid growth. Although it is difficult to anticipate the impact of these developments on elite structures, renewable energy and tourism have recently expanded in Nicaragua.[25] The final part of this section focuses on these two sectors.

The Ortega government announced a commitment to renewable energy in the Plan Estratégico del Sector Energético 2007-2017, and created a new Ministry of Energy and Mines (MEM) in 2007. This energy plan proposed to shift energy consumption away from fossil fuels, which accounted for 70% of power generation as late as 2012, over to renewable resources, which were projected to provide 94% of electricity in 2016. (Multilateral Investment Fund-IDB and Bloomberg New Energy Finance 2012, 88). The

[25] Investment has also increased in gold mining, but foreign ownership and the enclave characteristics of the sector suggest a limited impact on the domestic elite.

government secured IDB and World Bank funding to support this shift, and used a range of incentives under the 2005 Law for the Promotion of Renewable Energy Generation #532 to encourage private sector investment. In addition to the ethanol production already underway in the sugar industry at Ingenio San Antonio (Grupo Pellas) and Ingenio Monte Rosa (owned by Guatemalan Grupo Pantaleón), this renewable energy initiative encouraged investment in wind farms, geothermal projects, solar energy, and hydroelectric plants (MEM 2011, 13). Incentives included a 100% exemption on property tax for seven years, a 100% exemption on income from the sale of carbon credits, and a 100% exemption on import duties and value added taxes for equipment and construction materials (PRONICARAGUA 2012, n.p.). The use of renewable energy was further promoted by the regulatory requirement that electricity distributors negotiate contracts for clean energy and by the use of government grants to support off-grid rural electrification projects.

Opportunities in the renewable energy sector attracted a reported US$1.1 billion in investments in 2006-2010, with 50% invested in geothermal and 34% invested in wind power. The Ortega government reported 11 renewable energy projects in development in 2011, with an estimated price tag of $2.45 billion (GRUN 2011, 84). PRONICARAGUA (2012 n.p.) reported investments from Brazil, the US, Canada, Italy, Nicaragua and El Salvador to be underway in hydroelectric, wind and geothermal energy. These projects offered the prospect of generation beyond expanded domestic needs, allowing energy exports to the rest of Central America, distributed through a regional grid.

In a rigorous assessment of clean energy investment in Latin America, the IDB's Multilateral Investment Fund and Bloomberg New Energy Finance (2012, 86-89) ranked

Nicaragua 2nd only to Brazil in their 2012 “Climatescope” evaluation, based on a positive assessment of the availability of green energy financing (including from microlenders) and the development of an enabling policy framework. Although investment has come largely from foreign and public sources, Nicaraguan elites registered enthusiasm for the shift to renewable energy, anticipating collateral opportunities in construction and energy sector management, and hoping for secure supplies and reduced energy costs in the future (COSEP 2012c).

In addition to the shift toward renewable energy, tourism has attracted the interest of some local business elites. This industry, which had also been cultivated by the two previous administrations, began to expand rapidly in the 2000s in Nicaragua, as elsewhere in Central America. A cluster of previously approved tourism laws, including the Tourism Incentives Law #306, and the Law of Resident Pensioners and Retirees #694, encouraged sectoral growth with tax holidays and tariff concessions. Although continuing problems with Nicaragua’s property titling system complicated land acquisition and slowed tourism investment, proximity to tourist haven Costa Rica, along with Nicaragua’s continuing reputation for low crime and unspoiled terrain, made tourism an area of potential growth, most visibly in Granada and Rivas. This sector has been eagerly promoted by PRONICARAGUA and by industry specialists affiliated with CANATUR (PRONICARAGUA 2011).

Tourist arrivals more than doubled across the decade, increasing from 579,000 in 2002 to 1,234,000 in 2012. The number of hotels soared from 208 to 812 across that decade (BCN 2011, 25; BCN 2013c, 31), and income from tourism more than tripled, rising from $115 million in 2002 to $420 million in 2012 (BCN 2013c, 33). According to

the Instituto Nicaragüense de Turismo (INTUR 2011, 104), for the 501 projects approved for fiscal incentives under Law 306 between 1999 and 2010, almost half (49%) of tourism investments came from Nicaraguan sources. Nicaragua remained a regional laggard in tourism compared to Costa Rica, Guatemala and Panama, but Grupo Pellas' $250 million resort community, Guacalito de la Isla, which opened with a luxury hotel on Nicaragua's "Emerald Coast" in 2013, points to Nicaraguan elite interest in advancing the sector (PRONICARAGUA 2012).

6. Conclusions

As this analysis demonstrates, the new collaboration between the business sector and the Ortega regime emerged in a series of steps, with an initial shift toward high-level dialogue in 2006-2007 followed by the formalization and deepening of collaboration in the years that followed. Consultation began as an experimental process in which broad network of preeminent business group executives and a new generation of business association leaders pushed to redefine the sector's relationship with the FSLN. The hardships associated with the economic crisis during the previous Sandinista era, combined with multiple signals of the FSLN's growing moderation, encouraged the pursuit of a mediated dialogue with pro-business actors in the FSLN camp. Business leaders pushed to strengthen their voice through improved internal coordination as Ortega began his return to power.

Whereas shifting opportunities, political learning, new strategic calculations and generational change help to explain the business sector turn to consultation, the durability and subsequent deepening of the collaboration may be better understood in terms of the

material benefits that it delivered, at least to the dominant actors in the business community. Ortega's ability to secure extensive new resources through the ALBA alliance, while maintaining on-going resource flows from the Inter-American Development Bank and IMF, encouraged a positive elite assessment of the regime's performance. Economic growth, increased foreign investment, macroeconomic stability and labor peace provided concrete evidence of the viability of the new arrangement. The government's willingness to repeatedly accommodate business preferences in taxation and incentives further demonstrated the utility of cooperation. As the regime broadened its political base, winning another term with a substantial majority in 2011, the business sector settled into a routinized (if not institutionalized) dialogue with officials that delivered mounting policy gains.

In June 2012, high profile Nicaraguan business leaders joined a delegation traveling to Washington, D.C. to lobby against a threatened US aid cutoff to the Ortega government.[26] Faced with the prospect of a US veto of substantial development loans negotiated with the IDB and World Bank, the Nicaraguan business leaders formed a united front with the Ortega government to make the case that the waiver of sanctions (signed routinely by US presidents since the 1990s) should continue. Unable to salvage the USAID funding, they lobbied, successfully, to prevent U.S. rejection of multilateral loans to Nicaragua, the loss of which would have been economically debilitating.

[26] Allegations of major fraud in the 2008 municipal elections and deterioration in the quality of the presidential election process in 2011 fueled claims against Ortega at home and in Washington. Cuban-American Republican leaders in the US congress and the out-going US ambassador to Nicaragua, Robert Callahan, called for the Obama administration to apply sanctions against the Nicaraguan government. Citing the regime's lack of budgetary transparency and its failure to resolve outstanding US citizen property claims, some of which dated back to the time of the revolution, they called for punitive action.

The willingness of these economic leaders to take action that buffered the Ortega regime reflects the balance of state-business relations in contemporary Nicaragua. Unlike their predecessors in the 1980s, Nicaraguan business elites now worked to avoid destabilization of the Ortega government, even as they registered a call for institutional strengthening. Careful examination of the political and economic terrain in Nicaragua suggests that the mutual dependence of political and economic elites contributed to this and other manifestations of high-level cooperation.

From the standpoint of the government, engagement with the business sector reduced the threat of elite defection and encouraged the investment required to maintain growth. Openness to exchange and cooperation on legislation helped build a network of elite allies who could intervene in moments of tension with powerful external actors like the IMF and the U.S. government. Ortega's effort to position himself as a unifier and agent of development was also served by the high-profile alliance with business, with visible electoral consequences in 2011.

From the standpoint of economic elites, collaboration with a government that was committed to stability and growth, and capable of mobilizing resources toward that end, proved an attractive option. Top government officials listened to what business elites wanted in regularly scheduled sessions, and attended to their priority concerns about energy supplies, property guarantees and political access. The Ortega government continued to provide a spaghetti bowl full of exemptions, loopholes, and special benefits, as had its predecessors, assisting investors in the export processing zones, agricultural, forestry, mining and fishing projects, tourism, and energy. Lengthy tax holidays, tariff

exemptions, and export bonuses were maintained and increased, and officials did not pursue tax evasion aggressively (Medal 2012, 16).

Although the alliance with Chávez was a source of some unease, Venezuelan aid was a general economic stimulant, from which business also benefited. The energy supply was regularized, and other subsidies, like that for urban transport, helped hold down the cost of living, serving as a wage restraint. Paying the public sector wage bonus with Venezuelan money meant that domestic elites escaped fiscal responsibility for funding basic government services. The decline in the poverty rate, which began to register by 2009, reduced social tensions, as did improved access to public services.

The new generation of business leaders taking office during this juncture came of age in a post-cold war era and was less skeptical of the former revolutionaries, who themselves had de-radicalized. The inability of Ortega's neoliberal predecessors to spark sustained economic growth encouraged greater acceptance of state activism and openness to new strategic alliances. Regular engagement with leading government officials helped to recalibrate and clarify expectations, making cooperation more sustainable. COSEP's privileged position as the portal in these exchanges helped to strengthen the organization, further encouraging business collaboration.

Obtaining over 62% of the vote in the 2011 presidential election, Ortega demonstrated that he was now solidly in power. Overt clashes with Ortega would have either discredited economic elites, if they failed, or triggered political uncertainty, if they succeeded, either of which could have had costs for the business community. In contrast, Ortega's continuation in power, and business sector collaboration, ensured a predictable political terrain, with labor peace and improved prospects for growth. Sustained

collaboration won the approval not only of the organized business community but also of the general public. According to an October 2011 M&R opinion poll reported by COSEP, 87% of respondents thought the organization should continue its dialogue with the government ("¿Qué dice la encuesta," 2011, 39). Political realism and self-interest dictated cooperation.

Nonetheless, business cooperation did not mean an absence of tension, or that the future would be free of conflict. Coming battles include three issues that elude easy resolution: the need for equitable allocation of the tax burden; uncertainties over the future of Venezuelan support; and succession problems for the Ortega government.

Securing adequate resources to cover the costs of government services, and producing a more equitable distribution of the tax burden, will require an overhaul of the Nicaraguan tax system (Medal 2012; Schneider 2012). Tax loopholes and exemptions that the business sector had negotiated over the years were estimated to be equal to 7.6% of GDP in 2010 (IMF 2012b 21). Although some exemptions may be warranted in terms of their broader developmental consequences, others reflect favoritism or have outlived their usefulness. Tax reform, which has long been pushed by the IMF and a small network of domestic critics, could close unproductive loopholes and better distribute the fiscal burden among those who can best shoulder it. Eliminating exemptions and subsidies would also deny important sectors of the business elite access to resources that had fostered their growth, and the state important tools with which to induce collaboration. Negotiations between the government and business have allowed them to postpone this reform, but it remains a matter for future attention.

Uncertainty about the long-term prospects for Venezuelan funding has also had unsettling effects. Although continued support has been pledged by Chávez's successor, Nicolás Maduro, the new president's domestic mandate and commitment to Nicaragua are less certain than those that developed under Hugo Chávez. The Ortega government's draft development plan for 2012-2016 envisions extensive future ALBA-related investments, including an estimated $3.9 billion for the "Supremo Sueño de Bolívar" oil refinery industrial complex (GRUN 2012, 180). Other ALBA projects include investments in irrigation infrastructure, forestry, biomass and wind power, as well as five agro-industrial plants in the food-processing sector (180-81).[27] The forward advance of these plans could intensify competition between state-sponsored projects and private sector competitors, a concern that has already surfaced in some quarters (Alvarez Rodríguez 2011). The derailment of these investments and other sources of Venezuelan funding, on the other hand, could slow economic growth and contract resources that have fostered business collaboration.

Finally, uncertainty also arises over the future of Nicaragua's leadership selection process. Daniel Ortega's critics have called attention to the institutional failings that allowed him to run again for the presidency in 2011, in spite of constitutional prohibitions on consecutive elections and on a third presidential term. The regime's contested claim concerning the constitutionality of permanent re-election has allowed Ortega to remain in office, but this outcome does little to address the question of future succession or party alternation. The FSLN currently controls all branches of government,

[27] Planned ALBA investment projects for 2012-2016 include new slaughterhouses in Mulukukú and Muelle de los Bueyes developed by ALBALINISA, dairies in Camoapa and Acoyapa, and a maize processing center in Cuidad Darío (Oquist 2012, 13).

giving Ortega a tight grip on power. But without solid institutions that allow for regular leadership rotation and renewal, future political transitions can become disruptive.

Long-term democratic development calls for the on-going institutionalization of the electoral process and public consultation mechanisms in Nicaragua. Government dialogue with business representatives will need to become better formalized, so that it depends less on personalistic preferences of regime leaders, and it will need to be balanced by consultations with a broader array of citizen groups, so that incorporation is widened beyond the elite circles documented in this chapter. Business-state collaboration following Ortega's return to office has eased historical tensions between the FSLN and Nicaraguan elites, but a range of political and economic issues remain on the agenda.

Table 1: Consejo Superior de la Empresa Privada (COSEP) Affiliates

	1975	1979	1990	2007	2012
Cámara de Comercio de Nicaragua (CACONIC)	X	X	X	X	X
Cámara de Industrias de Nicaragua (CADIN)	X	X	X	X	X
Cámara Nicaragüense de la Construcción (CNC)	X	X	X	X	X
Instituto Nicaragüense de Desarrollo (INDE)	X	X	X	X	X
Asociación de Productores de Arroz de Nicaragua	X	Joined UPANIC			
Sociedad Cooperativa Anónima de Algodoneros	X	Joined UPANIC			
Sociedad Cooperative Anónima de Cafeteros	X	Joined UPANIC			
Asociación de Ganaderos de Nicaragua	X	Part joined UPANIC			
Unión de Productores Agropecuarios de Nicaragua (UPANIC)		X	X	X	X
Confederación de Asociaciones Profesionales de Nicaragua (CONAPRO)		X	Fractured	X	X
Asociación de Instituciones Bancarias de Nicaragua	X	Dissolved			
Asociación de Criadores de Ganado Brahman de Nicaragua	X	Dissolved			
Asociación de Distribuidores de Vehículos Automotores (later ANDIVA)	X	Dissolved		X	X
Cámara Nicaragüense de la Industria Pesquera (later Cámara de Pesca de Nicaragua-CAPENIC)	X	Dissolved		X	X
Asociación de Productores y Exportadores de Nicaragua (APEN)				X	X
Asociación Nacional de Avicultores y Productores de Alimentos (ANAPA)				X	X
Cámara Nacional de Turismo (CANATUR)				X	X
Asociación Nicaragüense de Formuladores y Distribuidores de Agroquimicos (ANIFODA)					X
Asociación Nicaragüense de la Industria Textil y de Confección (ANITEC)					X
Cámara de Urbanizadores de Nicaragua (CADUR)					X
Cámara Minera de Nicaragua (CAMINIC)					X
Cámara Nicaragüense de la Salud (CANSALUD)					X
Federación Cámara Nicaragüense de Zonas Francas (FCNZFP)					X
Asociación de Exportadores de Café Nicaragua (EXCAN)					X
Asociación de Bancos Privados de Nicaragua (ASOBANP)*					X

Source: Spalding (1994, fn 42, p 248); Spalding (1998 appendix, p. 181); COSEP 2007 *Memoria 2005-2007* (Managua: COSEP): 7; ‘Sector privado” 2008, 12;. The 2012 list is from www.cosep.org.ni, accessed October 1, 2012; Aguerri 2012.
*Under special regimen.

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